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APPENDIX D

AT&T CORP.
ANNUAL REPORTS AND SEC FILINGS

AT&T

Bringing People Together

1993 Annual Report

Anytime

Anywhere

Our growth comes from competing successfully worldwide in both old and new markets, offering new technology and high-quality products and services.

Financial Section

Consolidated Income Statement Information

Dollars in millions	1993	1992	1991
Total revenues	$67,156	$64,904	$63,089
Total costs	40,569	39,710	38,825
Gross margin	26,587	25,194	24,264
Provisions for business restructuring	498	64	3,572
Other operating expenses	19,851	18,861	19,334
Operating income	$ 6,238	$ 6,269	$ 1,358
Income before cumulative effects of accounting changes	$ 3,974	$ 3,807	$ 522
Cumulative effects of accounting changes	(7,768)	—	—
Net Income (Loss)	$ (3,794)	$ 3,807	$ 522
Gross margin percentage	39.6%	38.8%	38.5%
Operating margin percentage	9.3%	9.7%	2.2%

A discussion and analysis of our results and operations

Global economic conditions improved in 1993, but growth was still sluggish. In Europe and Japan the weak conditions of 1991 and 1992 continued this past year. Against this backdrop, we reported a 3.5% increase in total revenues in 1993, a pickup from the 2.9% increase in 1992.

We made three accounting changes this past year. Because new rules apply to all U.S. companies, we changed our accounting for retiree benefits, postemployment benefits and income taxes. The net after-tax charge to bring our financial statements in line with the new accounting methods caused us to report a net loss for the year. Excluding that net charge and the increase in 1993 expenses caused by the change in accounting for postemployment benefits and a fourth-quarter restructuring charge, our per share earnings were $3.15 in 1993. These accounting changes do not affect cash flows; they only change the expenses we report.

In our new accounting for *retiree benefits*, we estimate and book expenses for retiree benefits during the years employees are working and accumulating these future benefits. When we used the former "pay-as-you-go" accounting, we simply booked our contributions to trust funds for life insurance benefits and the actual claims for benefits such as health care and telephone concessions as they occurred. To use the new method, we made assumptions about trends in health care costs, interest rates and average life expectancy. Then we estimated the future payments for benefits to all present retirees and for accumulated benefits of active em-

Why do we make accounting changes?

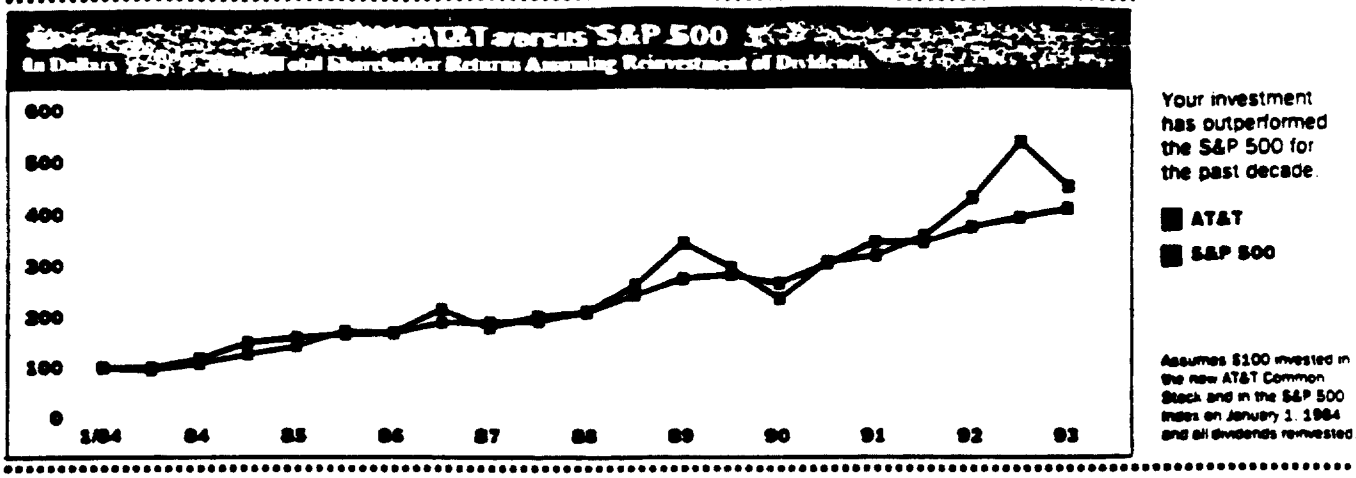
The goal of financial reporting and our objective at AT&T is to give investors the information they need to understand how we're doing over time and in comparison with other companies. Sometimes accounting rule-makers issue new rules for all companies. At other times, we decide to change our methods because of trends in our business or industry.

How do we make the changes?

We first figure out what our balance sheet would look like if we had always used the new accounting methods. Then we make all the adjustments needed to catch up with those new methods. Our income statement shows the net impact of all those adjustments as "cumulative effects on prior years of changes in accounting."

What do the changes mean to results?

Accounting changes sometimes have a large effect on reported earnings in the year of a change, but the effects on future earnings may be quite small once we bring the balance sheet up to date. Because the cumulative effects come from earlier years, many investors set them aside when looking at current results. The income statement format allows investors to see our results easily with or without these cumulative effects of accounting changes.



ployees. We then placed this $11.3 billion liability on the books to reflect those estimated future obligations at January 1, 1993, expressed in today's dollars. From now on, we will continue to record the expenses as employees accumulate future benefits so that our liability for retiree benefits is always up to date. We expect our annual expenses to be at about the same level we recorded before this accounting change.

Our new accounting for *postemployment benefits*, including payments for separations and disabilities, is very similar to our new accounting for retiree benefits. We must book expenses for future separations during the years employees are working and accumulating service with the company, and for disability benefits when the disabilities occur. Using the former method, we booked expenses for separations when we identified them and expenses for disabilities when we made payments. We used our experience over the past five years to estimate future separations. In the future, we will adjust our estimates based on the number of employees who actually leave our payroll with these payments. Because we book expenses every quarter using this accounting method instead of booking expenses when we make plans to restructure our business, this change increased our costs and expenses by $301 million in 1993, and reduced our earnings by $171 million, or $0.13 per share. We expect our earnings in 1994 to be similarly reduced.

Our new accounting for *income taxes* uses the enacted tax rates to compute both deferred and current taxes. That means we must refigure our deferred tax assets and liabilities whenever Congress changes tax rates. Using our former method, we held deferred tax assets and liabilities at their original values even when tax rates changed. Because federal corporate tax rates are lower now than they were before the 1986 Tax Act, we had a gain when we changed to the new accounting method. Apart from the effects of changes in statutory tax rates, we do not expect the new accounting to affect future earnings materially.

An overview of our business operations ....

Our core business is to meet the communications and computing needs of our customers by using networks to move and manage information. We divide the revenues and costs of this core business into three categories on our income statement: *telecommunications services*, *products and systems*, and *rentals and other services*. AT&T Capital Corporation (AT&T Capital) and AT&T Universal Card Services Corp. (Universal Card) are partners with our core business units as well as innovators in the financial services industry. We include their revenues and costs in a separate category on our income statement: *financial services and leasing*.

Customer demand for the products and services of our core business continues to grow despite weak economic conditions worldwide. Technological advances and brisk competition are making electronic communications and computing ever more useful and economical. Our financial services businesses are also growing because we are investing in new assets.

We look forward to greater revenue growth in 1994 than in 1993 because of a strengthening economy and the expected completion of our merger with the fast-growing McCaw Cellular Communications, Inc. (McCaw).

Our merger with McCaw aims to give our customers a more comprehensive service offering and our investors faster growth and higher long-term returns on their investment.

Our plan is for McCaw's owners to exchange their McCaw stock for new AT&T stock. Then all owners of the post-merger AT&T will share in the benefits and risks of the combined operations. The people, assets and capital of the two firms won't change just because of this merger.

In mergers like this, we simply add up the earnings, assets, liabilities and equity of the two companies and become one company. We used this same method, called a "pooling of interests," for the merger of AT&T and NCR in 1991.

After a merger, financial statements and all other financial information show the combined amounts as if there had always been only one company. To help you picture this, we included some of these combined amounts at the bottom of the ten-year summary of selected financial data. We computed these amounts assuming the merger was already completed using a one-for-one exchange of shares as AT&T and McCaw proposed in the merger agreement.

ship of Novell, Inc., a leading software development company.

- We sold our remaining interest in Compagnie Industriali Riunite S.p.A. (CIR) in 1993 for a slight gain. Because of declines in its market value, we wrote down that investment by $68 million in 1992 and by $218 million in 1991. CIR's value had declined along with the Italian securities market and because of lower earnings from its principal holding, Ing. C. Olivetti & C., S.p.A.
- In 1991 we had a $171 million gain from selling our investment in Sun Microsystems, Inc.

Sales of stock by our subsidiaries produced a $9 million loss in 1993 and a $43 million gain in 1991. The 1993 loss came from deducting recourse loans made to AT&T Capital's senior management so they would purchase shares and take a larger personal stake in the success of the business following the initial public offering. When the loans are repaid in seven years, we expect to report a net $6 million gain on this offering. The $43 million gain in 1991 came from USL selling stock to other companies to encourage their support for open computing standards.

Interest expense declined over the past two years because of benefits from refinancing long-term debt at favorable rates and reduced requirements for contingent liabilities. The benefits of refinancing, which were partly offset by costs of that refinancing such as call premiums, were responsible for about half of the decline in 1993 and two-thirds of the decline in 1992.

Income Taxes Information

Dollars in millions	1993	1992	1991
Income before income taxes and cumulative effects of accounting changes	$6,204	$5,958	$ 883
Provision for income taxes*	2,230	2,151	361
Effective income tax rate	36.0%	36.1%	40.9%
Income taxes paid	$1,675	$ 697	$1,308

* The cumulative effects of accounting changes include the tax effects of those adjustments.

The provisions for income taxes increased the past two years mainly because of higher "book income," that is, the income before income taxes and cumulative effects of accounting changes. The effective tax rate was at about the same level in 1993 and 1992. The rate was much higher in 1991 because the tax effects of restructuring charges were magnified by the lower income before income taxes.

Congress increased the federal statutory tax rate to 35% in August 1993 and made the change retroactive to January 1, 1993. We recognized a $73 million benefit from adjusting our deferred tax assets for the new rate. But that benefit was mostly offset by the increase in taxes on 1993 taxable income, caused by the higher rate. Consequently, this change in rates did not affect our 1993 net income materially.

Total Assets, Working Capital and Liquidity....

Net working capital—current assets less current liabilities—is a measure of our ability to cover short-term liabilities with assets that we expect to convert to cash soon. For example, collecting receivables helps us to pay our suppliers. We reduced our cash balance and working capital in 1993 to lower our "opportunity" costs of maintaining that capital. Our financial condition gives us easy access to financing when we need it, so we now target a cash balance under $800 million.

Balance Sheet Information

Dollars in millions	1993	1992	Change
Working capital	$ 4,404	$ 5,128	$ (724)
Cash and temporary cash investments	532	1,310	(778)
Total assets	60,766	57,188	3,578
Total debt	17,716	16,204	1,512
Total shareowners' equity	13,850	18,921	(5,071)
Days sales outstanding for core business	59.5	63.2	(3.7)
Inventory turnover	3.4	3.2	0.2

The growth in accounts receivable comes from our higher sales levels. Days sales outstanding in our core business, defined as average accounts receivable divided by average daily revenues in our core business, declined because of improved receivables management. To spur further growth in revenues and earnings for financial services and leasing, we invested in additional finance receivables from our credit card and equipment financing and leasing businesses. We keep a close watch on account status, which has helped us maintain a low level of delinquent balances and write-offs.

Higher inventory levels are associated with our sales growth, which we expect to continue in 1994. Improved inventory management in 1993 led to increased inventory turnover.

Making better use of existing capacity on our long distance network, we reduced capital expenditures in 1993. Our plant additions were at about the same level as depreciation, leaving property, plant and equipment, net of accumulated depreciation, essentially unchanged.

The fair value of our pension plan assets is greater than our projected pension obligations. Those plan assets are earning a return that exceeds the growth in pension liabilities. In addition, we are amortizing a transition asset related to our 1986 change in pension accounting over 15.9 years, which produces about $500 million of income each year. Consequently, we had pension income that added to our prepaid pension costs.

Under an agreement with unions representing many of our employees, we transferred some of these excess pension assets over the past two years to fund retiree health care benefits. Before 1993 we included these prepaid health care costs in other assets. However, when we added the liabilities for retiree benefits to our balance sheet in 1993, because of the new accounting rule, we netted these prepaid costs with the liabilities. We did something similar when we netted the trusts for disability payments with liabilities for separations and disabilities. Our net liabilities for postretirement and postemployment liabilities are now combined on our balance sheet. Our recognition of these liabilities created additional deferred tax assets.

Consolidated Statements of Income

AT&T and Subsidiaries
Years ended December 31

Dollars in millions (except per share amounts)	1993	1992	1991
Sales and Revenues			
Telecommunications services	$39,863	$39,580	$38,805
Products and systems	17,798	16,473	15,941
Rentals and other services	6,991	6,957	6,959
Financial services and leasing	2,504	1,894	1,384
Total revenues	67,156	64,904	63,089
Costs			
Telecommunications services			
Access and other interconnection costs	17,709	18,132	18,395
Other costs	7,009	7,135	6,881
Total telecommunications services	24,718	25,267	25,276
Products and systems	10,809	9,846	9,134
Rentals and other services	3,331	3,287	3,344
Financial services and leasing	1,711	1,310	1,071
Total costs	40,569	39,710	38,825
Gross margin	26,587	25,194	24,264
Operating Expenses			
Selling, general and administrative expenses	16,782	15,950	16,220
Research and development expenses	3,069	2,911	3,114
Provisions for business restructuring	498	64	3,572
Total operating expenses	20,349	18,925	22,906
Operating income	6,238	6,269	1,358
Other income–net	541	352	208
Gain (loss) on sale of stock by subsidiaries	(9)	—	43
Interest expense	566	663	726
Income before income taxes and cumulative effects of accounting changes	6,204	5,958	883
Provision for income taxes	2,230	2,151	361
Income before cumulative effects of accounting changes	3,974	3,807	522
Cumulative effects on prior years of changes in accounting for:			
Postretirement benefits (net of income tax benefit of $4,294)	(7,023)	—	—
Postemployment benefits (net of income tax benefit of $681)	(1,128)	—	—
Income taxes	383	—	—
Cumulative effects of accounting changes	(7,768)	—	—
Net Income (Loss)	$ (3,794)	$ 3,807	$ 522
Weighted average common shares outstanding (millions)	1,353	1,332	1,293
Per Common Share:			
Income before cumulative effects of accounting changes	$ 2.94	$ 2.86	$ .40
Cumulative effects of accounting changes	(5.74)	—	—
Net Income (Loss)	$ (2.80)	$ 2.86	$ .40

The notes on pages 34 through 43 are an integral part of the consolidated financial statements.

Consolidated Balance Sheets

AT&T and Subsidiaries
at December 31

Dollars in millions (except per share amount)	1993	1992
Assets		
Cash and temporary cash investments	$ 532	$ 1,310
Receivables, less allowance of $1,003 and $829		
Accounts receivable	11,933	11,040
Finance receivables	11,370	8,569
Inventories	3,187	2,659
Deferred income taxes	2,079	2,118
Other current assets	637	818
Total current assets	29,738	26,514
Property, plant and equipment–net	19,397	19,358
Investments	1,503	864
Finance receivables	3,815	3,643
Prepaid pension costs	3,576	3,480
Other assets	2,737	3,329
Total assets	$60,766	$57,188
Liabilities and Deferred Credits		
Accounts payable	$ 4,694	$ 5,045
Payroll and benefit-related liabilities	3,746	3,336
Postretirement and postemployment benefit liabilities	1,301	—
Debt maturing within one year	10,904	7,600
Dividends payable	448	443
Other current liabilities	4,241	4,962
Total current liabilities	25,334	21,386
Long-term debt including capital leases	6,812	8,604
Postretirement and postemployment benefit liabilities	9,082	—
Other liabilities	4,298	2,634
Deferred income taxes	275	4,660
Unamortized investment tax credits	270	350
Other deferred credits	263	181
Total liabilities and deferred credits	46,334	37,815
Minority interests	582	452
Shareowners' Equity		
Common shares par value $1 per share	1,352	1,340
Authorized shares: 2,000,000,000		
Outstanding shares: 1,352,398,000 at December 31, 1993; 1,339,831,000 at December 31, 1992		
Additional paid-in capital	12,028	11,425
Guaranteed ESOP obligation	(355)	(407)
Foreign currency translation adjustments	(32)	65
Retained earnings	857	6,498
Total shareowners' equity	13,850	18,921
Total liabilities and shareowners' equity	$60,766	$57,188

The notes on pages 34 through 43 are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

AT&T and Subsidiaries
Years ended December 31

Dollars in millions	1993	1992	1991
Operating Activities			
Net income	$ (3,794)	$ 3,807	$ 522
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effects of accounting changes	7,768	—	—
Depreciation	3,626	3,540	3,568
Provision for uncollectibles	1,635	1,945	1,233
Provisions for business restructuring	498	64	3,572
(Increase) in accounts receivable	(2,082)	(1,489)	(2,108)
(Increase) decrease in inventories	(540)	551	(59)
(Decrease) increase in accounts payable	(331)	30	109
Net (increase) in other operating assets and liabilities	(52)	(1,084)	(1,382)
Other adjustments for non-cash items–net	401	510	560
Net cash provided by operating activities	7,129	7,874	6,015
Investing Activities			
Capital expenditures net of proceeds from sale or disposal of property, plant and equipment of $241, $250 and $119	(3,701)	(3,933)	(3,860)
Increase in finance receivables, net of lease-related repayments of $3,633, $4,325 and $3,521	(3,483)	(3,878)	(3,052)
Net (increase) decrease in investments	(540)	(12)	473
Acquisitions, net of cash acquired	(414)	(202)	(29)
Other investing activities–net	(201)	(167)	69
Net cash used in investing activities	(8,339)	(8,192)	(6,399)
Financing Activities			
Proceeds from long-term debt issuance	2,456	2,928	1,300
Retirements of long-term debt	(3,483)	(3,684)	(1,196)
Issuance of common shares	619	689	1,164
Dividends paid	(1,774)	(1,748)	(1,563)
Increase in short-term borrowings–net	2,586	1,341	969
Other financing activities–net	25	(72)	2
Net cash provided by (used in) financing activities	429	(546)	676
Effect of exchange rate changes on cash	3	26	(19)
Net (decrease) increase in cash and temporary cash investments	(778)	(838)	273
Cash and temporary cash investments at beginning of year	1,310	2,148	1,875
Cash and temporary cash investments at end of year	$ 532	$ 1,310	$ 2,148

The notes on pages 34 through 43 are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

American Telephone and Telegraph Company (AT&T) and subsidiaries

1. Summary of Significant Accounting Policies

Consolidation

Ownership of affiliates	*Accounting method*
More than 50%	Fully consolidated
20% to 50%	Equity method
Less than 20%	Cost method

We include the accounts of operations located outside the U.S. on the basis of their fiscal years, ended either November 30 or December 31

Currency Translation

For the business we transact in currencies other than U.S. dollars, we translate income statement amounts at average exchange rates for the year, and we translate assets and liabilities at year-end exchange rates. We show the adjustments from balance sheet translation as a separate component of shareowners' equity.

Revenue Recognition

Revenue from	*Basis of recognition*
Telecommunications Services	Minutes of traffic processed and contracted fees
Products and Systems	Upon performance of contractual obligations
Rentals and Other Services	Proportionately over contract period or as services are performed
Financial Services and Leasing	Over the life of the finance receivables using the interest method

Research and Development

We expense research and development expenditures as incurred (including development costs of software that we plan to sell) until technological feasibility is established. After that time, we capitalize the remaining software production costs as other assets and amortize them to product costs over the estimated period of sales

Interest Expense

Interest expense is the interest on short-term and long-term debt and accrued liabilities, excluding the interest related to our financial services operations, which is included in cost of financial services and leasing, and net of interest capitalized in connection with construction.

Investment Tax Credits

For financial reporting purposes, we amortize investment tax credits as a reduction to the provision for income taxes over the useful lives of the property that produced the credits.

Earnings per Share

We use the weighted average number of shares of common stock and common stock equivalents outstanding during each period to compute earnings per common share. Common stock equivalents are stock options that we assume to be exercised for the purposes of this computation.

Temporary Cash Investments

We consider temporary cash investments to be cash equivalents for cash flow reporting purposes. They are highly liquid and have original maturities generally of three months or less.

Inventories

We state inventories at the lower of cost or market. We determine cost principally on a first-in, first-out (FIFO) basis.

Property, Plant and Equipment

We state property, plant and equipment at cost and determine depreciation using either the group or unit method. The unit method is used primarily for factory facilities, laboratory equipment, large computer systems, and certain international earth stations and submarine cables. The group method is used for most other depreciable assets. When we dispose of assets that were depreciated using the unit method, we include the gains or losses in operating results. When we sell or retire plant that was depreciated using the group method, we deduct the original cost from the plant account and from accumulated depreciation.

We use accelerated depreciation methods for factory facilities and digital equipment used in the telecommunications network, except switching equipment placed in service before 1989. All other plant and equipment is depreciated on a straight-line basis.

Goodwill

Goodwill is the difference between the purchase price and the fair value of net assets acquired in business combinations treated as purchases. We amortize goodwill on a straight-line basis over the periods benefited, principally in the range of 10 to 15 years.

Reclassifications

We reclassified certain amounts for previous years to conform with the 1993 presentation.

2. Changes in Accounting Principles

Postretirement Benefits

We adopted Statement of Financial Accounting Standards (SFAS) No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," effective January 1, 1993. This standard requires us to accrue estimated future retiree benefits during the years employees are working and accumulating these benefits. Previously, we expensed health care benefits as claims were incurred and life insurance benefits as plans were funded.

When we adopted the new standard, we had an accumulated liability related to past service from retirees and active employees. A portion of that liability was provided for by group life insurance benefits and trusts for health care benefits funded before 1993.

We also reimburse the divested regional Bell companies for a portion of their costs to provide health care benefits, increases in pensions and other benefits to predivestiture retirees under the terms of the Divestiture Plan of Reorganization. Through 1992 we expensed these reimbursements as incurred. In January 1993 we recognized this liability in connection with the adoption of SFAS No. 106.

We elected to record a one-time pretax charge of $11,317 million to record the unfunded portions of these liabilities. That charge reflects $12,986 million of liabilities less $1,669 million of plan assets and amounts previously recorded. After taxes, that charge was $7,023 million ($5.19 per share), including $1,375 million for predivestiture retirees. Apart from these cumulative effects on prior years of the accounting change, our change in accounting had no material effect on net income in 1993 and is not expected to affect net income materially in future periods. This change does not affect cash flows.

Postemployment Benefits

We also adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits," effective January 1, 1993. Analogous to SFAS No. 106, this standard requires us to accrue for estimated future postemployment benefits, including separation payments, during the years employees are working and accumulating these benefits, and for disability payments when the disabilities occur. Before this change in accounting, we recognized costs for separations when they were identified and disability benefits when they were paid.

When we adopted the new standard, we had an accumulated liability for payments to employees who were then disabled and for benefits related to the past service of active employees. We recorded a one-time pretax charge of $1,809 million to record the unprovided portion of these liabilities. That charge reflects $2,221 million of liabilities less $412 million of reserves for business restructuring activities that were established before 1993 and reclassified to postemployment liabilities as part of this accounting change. After taxes, that charge was $1,128 million ($0.83 per share). The change in accounting reduced operating income by $301 million, and net income by $171 million ($0.13 per share) in 1993. This change does not affect cash flows.

Income Taxes

We also adopted SFAS No. 109, "Accounting for Income Taxes," effective January 1, 1993. Among other provisions, this standard requires us to compute deferred tax accounts using the enacted corporate income tax rates for the years in which the taxes will be paid or refunds received. Before 1993 our deferred tax accounts reflected the rates in effect when we made the deferrals.

Because corporate income tax rates in 1993 were lower than the rates that existed before the 1986 Tax Act, our adoption of the new standard raised net income by $383 million ($0.28 per share). Apart from this benefit, the new accounting method had no material effect on net income in 1993. Unless Congress changes tax rates, we do not expect this change to affect net income materially in future periods. This change does not affect cash flows.

3. Prospective Accounting Changes ....

Debt and Equity Securities

In 1994 we must adopt SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." This standard addresses the accounting and reporting for investments in equity securities that have readily determinable fair values and for all investments in debt securities. We do not expect this new standard to affect net income materially at or after adoption, and it will not affect cash flows.

Impaired Loans

By 1995 we must adopt SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." This standard requires us to compute present values for impaired loans when determining our allowances for credit losses. We do not expect this new standard to affect net income materially at or after adoption, and it will not affect cash flows.

4. Prospective Merger with McCaw Cellular Communications, Inc. (McCaw) ....

On August 16, 1993 AT&T and McCaw entered into a definitive agreement to merge McCaw and a subsidiary of AT&T, making McCaw a wholly owned subsidiary of AT&T.

In the merger, each share of McCaw's Class A and Class B common stock will be converted into one share of AT&T common stock. However, if the 20-day-average market price of the AT&T common stock as of five business days before the merger is less than $53 per share, the conversion ratio will be adjusted upward to provide shares of AT&T common stock having an aggregate market price of $53 for each share of McCaw common stock, subject to a maximum of 1.111 shares of AT&T common stock. If the 20-day-average market price of AT&T common stock as of five business days before the merger is greater than $71.73 per share, the conversion ratio will be adjusted downward to provide shares of AT&T common stock having an aggregate market price of $71.73 for each share of McCaw common stock, subject to a minimum of .909 of a share of AT&T common stock.

Pursuant to a separate agreement, AT&T has granted McCaw the right, in the event the merger does not close, to require AT&T to purchase from McCaw $600 million of McCaw's Class A common stock at a price of $51.25 per share.

The merger is subject to a number of conditions, including the receipt of regulatory approvals, expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act (HSR Act), receipt of opinions that the merger will be tax free and will be accounted for as a pooling of interests, and McCaw stockholder approval. McCaw stockholders holding a majority of the voting power of the McCaw common stock, including members of the McCaw family and British Telecommunications plc, have agreed to vote in favor of the merger.

1991. Pension cost includes the following components:

Dollars in millions	1993	1992	1991
Service cost—benefits earned during the period	$ 536	$ 452	$ 303
Interest cost on projected benefit obligation	2,294	2,225	2,136
Amortization of unrecognized prior service costs	251	346	310
Credit for expected return on plan assets*	(3,108)	(2,973)	(2,728)
Amortization of transition asset	(502)	(502)	(502)
Charges for special pension options	74	11	108
Net pension cost (credit)	$ (455)	$ (441)	$ (373)

*The actual return on plan assets was $5,068 in 1993, $2,153 in 1992 and $6,980 in 1991.

This table shows the funded status of the defined benefit plans:

Dollars in millions at December 31	1993	1992
Actuarial present value of accumulated benefit obligation, including vested benefits of $28,119 and $24,818, respectively	$30,943	$27,316
Plan assets at fair value	$41,481	$38,767
Less: Actuarial present value of projected benefit obligation	32,680	28,719
Excess of assets over projected benefit obligation	8,801	10,048
Unrecognized prior service costs	2,052	2,200
Unrecognized transition asset	(3,960)	(4,463)
Unrecognized net gain	(3,513)	(4,613)
Net minimum liability of non-qualified plans	(72)	(45)
Prepaid pension costs	$ 3,308	$ 3,127

We used these rates and assumptions to calculate the projected benefit obligation:

At December 31	1993	1992
Weighted-average discount rate	7.5%	8.3%
Rate of increase in future compensation levels	5.0%	5.0%

The prepaid pension costs shown above are net of pension liabilities for plans where accumulated plan benefits exceed assets. Such liabilities are included in other liabilities in the consolidated balance sheets.

We are amortizing over approximately 15.9 years the unrecognized transition asset related to our 1986 adoption of SFAS No. 87, "Employers' Accounting for Pensions." We amortize prior service costs primarily on a straight-line basis over the average remaining service period of active employees. Our plan assets consist primarily of listed stocks (including $378 million and $451 million of AT&T common stock at December 31, 1993 and 1992, respectively), corporate and governmental debt, real estate investments, and cash and cash equivalents

Savings Plans

We sponsor savings plans for the majority of our employees. The plans allow employees to contribute a portion of their pretax and/or after-tax income in accordance with specified guidelines. We match a percentage of the employee contributions up to certain limits. Our contributions in millions amounted to $347 in 1993, $331 in 1992 and $279 in 1991.

14. Postretirement Benefits

Our benefit plans for retirees include health care benefits, life insurance coverage and telephone concessions. This table shows the components of the net postretirement benefit cost:

Dollars in millions	1993
Service cost—benefits earned during the period	$ 95
Interest cost on accumulated postretirement benefit obligation	868
Credit for expected return on plan assets*	(180)
Amortization of unrecognized prior service costs	29
Charge for special options	29
Net postretirement benefit cost	$ 841

*The actual return on plan assets was $243.

We did not restate our 1991 and 1992 financial statements to reflect the change in accounting for retiree benefits. This table shows our actual postretirement benefit costs on a pay-as-you-go basis in those years:

Dollars in millions at December 31	1992	1991
Cost of health care benefits for retirees	$532	$532
Cost of life insurance benefits for retirees	3	26
Cost of telephone concessions and other benefits	39	35
Payments to regional Bell companies for predivestiture retirees	145	125
Postretirement benefit cost	$719	$718

We had approximately 142,200 retirees in 1993, 141,200 in 1992 and 138,500 in 1991.

Our plan assets consist primarily of listed stocks, corporate and governmental debt, cash and cash equivalents and life insurance contracts. This table shows the funded status of our postretirement benefit plans reconciled with the amounts recognized in the consolidated balance sheet:

Dollars in millions at December 31	1993
Accumulated postretirement benefit obligation	
Retirees	$ 8,928
Fully eligible active plan participants	893
Other active plan participants	2,092
Accumulated postretirement benefit obligation	11,913
Plan assets at fair value	2,900
Unfunded postretirement obligation	9,013
Unrecognized prior service costs	283
Unrecognized net loss	569
Accrued postretirement benefit obligation	$ 8,161

We made these assumptions in valuing our postretirement benefit obligation at December 31, 1993:

Weighted-average discount rate	7.5%
Expected long-term rate of return on plan assets	9.0%
Assumed rate of increase in the per capita cost of covered health care benefits	9.4%

We assumed that the growth in the per capita cost of covered health care benefits (the health care cost trend rate) would gradually decline after 1994 to 5.6% by the year 2021 and then remain level. This assumption greatly affects the amounts reported. To illustrate, increasing the assumed trend rate by 1% in each year would raise our accumulated postretirement benefit obligation at December 31, 1993 by $758 million and our 1993 postretirement benefit costs by $64 million.

15. Stock Options

In our Long Term Incentive Program, we grant stock options, stock appreciation rights (SARs), either in tandem with stock options or free-standing, and other awards. On January 1 of each year, 0.6% of the outstanding shares of our common stock become available for grant. The exercise price of any stock option is equal to or greater than the stock price when the option is granted. When granted in tandem, exercise of an option or SAR cancels the other to the extent of such exercise. Option transactions are shown below:

Number of shares	1993	1992	1991
Balance at January 1	25,588,351	24,877,209	19,657,362
Options assumed in merger with Teradata	—	1,848,642	—
Options granted	4,729,651	4,948,371	8,312,922
Options and SARs exercised	(3,994,569)	(5,752,053)	(2,874,129)
Average price	$27.62	$20.44	$19.53
Options forfeited	(162,996)	(333,818)	(218,946)
At December 31:			
Options outstanding	26,160,437	25,588,351	24,877,209
Average price	$36.78	$32.58	$29.77
Options exercisable	17,942,984	17,832,355	17,713,781
Shares available for grant	19,626,553	16,592,924	13,852,914

During 1993 167,747 SARs were exercised and no SARs were granted. At December 31, 1993, 925,210 SARs remained unexercised and all of these were exercisable.

Before our mergers with NCR and Teradata, stock options were granted under the separate stock option plans of those companies. No new options can be granted under those plans.

16. Segment Information

Industry Segments

Our operations in the global information movement and management industry involve providing long distance telecommunications services, business information processing systems, and other systems, products and services that combine communications and computers. Our operations in the financial services and leasing industry involve direct financing and finance leasing programs for our products and the products of other companies, leasing products to customers under operating leases and being in the general-purpose credit card business. Miscellaneous other activities, including the distribution of computer equipment through retail outlets, in the aggregate, represent less than 10% of revenues, operating income and identifiable assets and are included in the information movement and management segment. Revenues between industry segments are not material.

Dollars in millions	1993	1992	1991
Revenues			
Information movement and management	$64,652	$63,010	$61,705
Financial services and leasing	2,504	1,894	1,384
	$67,156	$64,904	$63,089
Operating income			
Information movement and management	$ 6,509	$ 6,840	$ 2,008
Financial services and leasing	339	193	(34)
Corporate and non-operating	(644)	(1,075)	(1,091)
Income before income taxes	$ 6,204	$ 5,958	$ 883
Assets			
Information movement and management	$43,515	$41,987	$41,307
Financial services and leasing	17,033	14,003	9,809
Corporate assets	934	1,607	2,533
Eliminations	(716)	(409)	(294)
	$60,766	$57,188	$53,355
Depreciation and amortization			
Information movement and management	$ 3,682	$ 3,541	$ 3,852
Financial services and leasing	431	352	160
Capital expenditures			
Information movement and management	$ 3,232	$ 3,286	$ 3,372
Financial services and leasing	457	633	472
Total liabilities			
Financial services and leasing	$15,329	$12,250	$ 8,720

Geographic Segments

Transfers between geographic areas are on terms and conditions comparable with sales to external customers. The methods followed in developing the geographic area data require the use of estimation techniques and do not take into account the extent to which product development, manufacturing and marketing depend upon each other. Thus the information may not be indicative of results if the geographic areas were independent organizations.

Dollars in millions	1993	1992	1991
Revenues—external customers			
United States	$61,580	$59,234	$57,647
Other geographic areas	5,576	5,670	5,442
	$67,156	$64,904	$63,089
Transfers between geographic areas (eliminated in consolidation)			
United States	$ 1,374	$ 1,077	$ 870
Other geographic areas	1,125	911	884
	$ 2,499	$ 1,988	$ 1,754

AT&T 1994 Annual Report

With 5% of the $1.5 trillion global information industry, AT&T is a small fish with lots of room  to grow.

The merger of AT&T and McCaw is the best and quickest way for the two companies to take advantage of developing opportunities in a dynamic industry.

Financial Section

A Discussion and Analysis of Our Results and Operations

The merger was one of the most important events of 1994 for us. Shareowners now own a stronger AT&T with even better prospects for growth in revenues and earnings. Our customers will choose from a wider array of services.

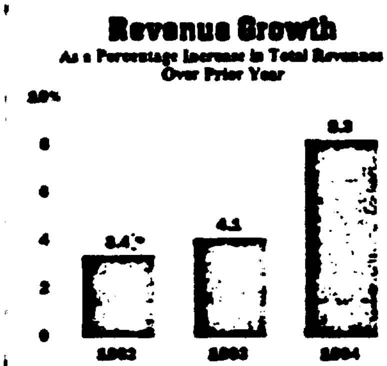
Though completed, the merger remains subject to legal reviews. In addition, under the terms of a proposed antitrust consent decree between AT&T and McCaw and the United States, the operations of AT&T and McCaw are subject to several conditions, including keeping McCaw as a separate business with its own officers and employees. After McCaw provides equal access connections to other long distance carriers, McCaw may use the AT&T brand on McCaw's cellular services, and AT&T may jointly market AT&T's long distance and McCaw's cellular services, and provide customers with a single bill for both. For the most part, these restrictions merely confirm commitments we made when we announced our merger plans and they do nothing to alter the fundamental logic or economics of the merger.

Operating now as the wireless unit of AT&T, McCaw is the leading U.S. provider of wireless communications services, which include cellular, messaging, data transmission and air-to-ground services. McCaw has cellular operations in more than 100 cities. In most markets McCaw offers its services under the brand name Cellular One®. McCaw also operates the sixth largest U.S. messaging service, serving more than 700,000 customers, and a digital air-to-ground telephone service for commercial airlines and corporate aircraft.

AT&T's Strong Financial Performance

Accelerating revenue growth in products and services, aided by effective cost and expense controls, boosted earnings to another record in 1994. The climate for growth improved this past year because of better economic conditions, and changes in technology and world trade that spurred demand for network services as well as new networks. We look forward to continued growth in revenues and earnings in 1995.

Our financial performance was also strong in 1992 and 1993. Our performance met growth targets despite the less favorable business and economic environment. In 1993 we also had to adopt new accounting methods. Because new



In 1994 we achieved revenue growth that matches the 8–10% annual growth of the global information industry as a whole.

rules apply to all U.S. companies, we changed our accounting for retiree benefits, postemployment benefits and income taxes. The net $9.6 billion after-tax charge to bring our financial statements in line with the new accounting methods caused us to report a net loss for that year. But those accounting changes do not affect cash flows; they only change the expenses we report.

In our accounting for *retiree benefits*, we estimate and book expenses during the years employees are working and accumulating future benefits. When we used the former "pay-as-you-go" accounting, we simply booked our contributions to trust funds for life insurance benefits and the actual claims for benefits such as health care and telephone concessions as they occurred.

Our accounting for *postemployment benefits*, including payments for separations and disabilities, is very similar to the accounting for retiree benefits. We book expenses for future separations during the years employees are working and accumulating service with the company and for disability benefits when the disabilities occur. In the former accounting method, we booked expenses for separations when we approved them and for disabilities when we made payments. Compared with 1992, this change increased our costs and expenses by $301 million in 1993, which reduced earnings $171 million, or $0.11 per share.

Our accounting for *income taxes* uses the enacted tax rates to compute both deferred and current income taxes. Using our former method, we held deferred tax assets and liabilities at their original values even when Congress changed the tax rates.

Consolidated Statements of Income

AT&T Corp. and Subsidiaries. Years Ended December 31

Dollars in millions (except per share amounts)	1994	1993	1992
Sales and Revenues			
Telecommunications services	$43,425	$41,623	$40,968
Products and systems	21,161	17,925	16,579
Rentals and other services	7,391	7,299	7,206
Financial services and leasing	3,117	2,504	1,894
Total revenues	75,094	69,351	66,647
Costs			
Telecommunications services			
Access and other interconnection costs	17,797	17,772	18,186
Other costs	7,466	7,623	7,553
Total telecommunications services	25,263	25,395	25,739
Products and systems	13,273	10,966	9,976
Rentals and other services	3,629	3,563	3,366
Financial services and leasing	2,152	1,711	1,310
Total costs	44,317	41,635	40,391
Gross margin	30,777	27,716	26,256
Operating Expenses			
Selling, general and administrative expenses	19,637	18,037	16,704
Research and development expenses	3,110	3,111	2,924
Total operating expenses	22,747	21,148	19,628
Operating income	8,030	6,568	6,628
Other income – net	236	476	163
Loss on sale of stock by subsidiary	—	9	—
Interest expense	748	1,032	1,153
Income before income taxes and cumulative effects of accounting changes	7,518	6,003	5,638
Provision for income taxes	2,808	2,301	2,196
Income before cumulative effects of accounting changes	4,710	3,702	3,442
Cumulative effects on prior years of changes in accounting for:			
Postretirement benefits (net of income tax benefit of $4,294)	—	(7,023)	—
Postemployment benefits (net of income tax benefit of $681)	—	(1,128)	—
Income taxes	—	(1,457)	—
Cumulative effects of accounting changes	—	(9,608)	—
Net Income (Loss)	$ 4,710	$ (5,906)	$ 3,442
Weighted average common shares outstanding (millions)	1,564	1,547	1,519
Per Common Share:			
Income before cumulative effects of accounting changes	$ 3.01	$ 2.39	$ 2.27
Cumulative effects of accounting changes	—	(6.21)	—
Net Income (Loss)	$ 3.01	$ (3.82)	$ 2.27

The notes on pages 33 through 43 are an integral part of the consolidated financial statements

Consolidated Balance Sheets

AT&T Corp. and Subsidiaries at December 31

Dollars in millions (except per share amount)	1994	1993
Assets		
Cash and temporary cash investments	$ 1,208	$ 671
Receivables, less allowances of $1,251 and $1,040		
Accounts receivable	13,671	12,294
Finance receivables	14,952	11,370
Inventories	3,633	3,222
Deferred income taxes	3,030	2,079
Other current assets	1,117	732
Total current assets	37,611	30,368
Property, plant and equipment – net	22,035	21,015
Licensing costs – net	4,251	3,995
Investments	2,708	3,060
Finance receivables	4,513	3,815
Prepaid pension costs	4,151	3,575
Other assets	3,993	3,565
Total assets	$79,262	$69,393
Liabilities and Deferred Credits		
Accounts payable	$ 6,011	$ 4,853
Payroll and benefit-related liabilities	4,105	3,802
Postretirement and postemployment benefit liabilities	1,029	1,301
Debt maturing within one year	13,666	11,063
Dividends payable	518	448
Other current liabilities	5,601	4,587
Total current liabilities	30,930	26,054
Long-term debt including capital leases	11,358	11,802
Postretirement and postemployment benefit liabilities	8,754	9,083
Other liabilities	4,285	4,363
Deferred income taxes	3,913	2,231
Unamortized investment tax credits	232	270
Other deferred credits	776	263
Total liabilities and deferred credits	60,248	54,066
Minority interests	1,093	648
Redeemable preferred stock	—	1,305
Common Shareowners' Equity		
Common shares par value $1 per share	1,569	1,547
Authorized shares: 2,000,000,000		
Outstanding shares: 1,569,006,000 at December 31, 1994; 1,546,518,000 at December 31, 1993		
Additional paid-in capital	15,825	14,324
Guaranteed ESOP obligation	(305)	(355)
Foreign currency translation adjustments	145	(32)
Retained earnings (deficit)	687	(2,110)
Total common shareowners' equity	17,921	13,374
Total liabilities and shareowners' equity	$79,262	$69,393

The notes on pages 33 through 43 are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

AT&T Corp. and Subsidiaries, Years Ended December 31

Dollars in millions	1994	1993	1992
Operating Activities			
Net income (loss)	$ 4,710	$(5,906)	$ 3,442
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effects of accounting changes	—	9,608	—
Depreciation and licensing cost amortization	4,039	4,082	3,825
Provision for uncollectibles	1,929	1,665	1,983
(Increase) in accounts receivable	(2,672)	(2,211)	(1,577)
(Increase) decrease in inventories	(392)	(444)	549
Increase (decrease) in accounts payable	1,125	(295)	46
Net (increase) decrease in other operating assets and liabilities	(356)	(1,272)	(1,595)
Other adjustments for noncash items – net	573	2,197	1,363
Net cash provided by operating activities	8,956	7,424	8,036
Investing Activities			
Capital expenditures net of proceeds from sale or disposal of property, plant and equipment of $451, $241 and $250	(4,853)	(4,296)	(4,328)
Increase in finance receivables, net of lease-related repayments of $3,384, $3,512 and $3,316	(4,616)	(3,484)	(3,878)
Net (increase) decrease in investments	(159)	(453)	33
Acquisitions, net of cash acquired	144	(228)	(308)
Other investing activities – net	(271)	(204)	(125)
Net cash used in investing activities	(9,755)	(8,665)	(8,606)
Financing Activities			
Proceeds from long-term debt issuance	6,134	4,386	3,368
Retirements of long-term debt	(5,637)	(5,879)	(3,732)
Issuance of common shares	976	1,053	703
Dividends paid	(1,870)	(1,774)	(1,748)
Increase in short-term borrowings – net	1,747	2,586	1,341
Other financing activities – net	(36)	25	(162)
Net cash provided by (used in) financing activities	1,314	397	(230)
Effect of exchange rate changes on cash	22	3	26
Net increase (decrease) in cash and temporary cash investments	537	(841)	(774)
Cash and temporary cash investments at beginning of year	671	1,512	2,286
Cash and temporary cash investments at end of year	$ 1,208	$ 671	$ 1,512

The notes on pages 33 through 43 are an integral part of the consolidated financial statements

Reclassifications
We reclassified certain amounts for previous years to conform with the 1994 presentation

2. Changes in Accounting Principles

Postretirement Benefits
We adopted Statement of Financial Accounting Standards (SFAS) No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," effective January 1, 1993. This standard requires us to accrue estimated future retiree benefits during the years employees are working and accumulating these benefits. Previously, we expensed health care benefits as claims were incurred and life insurance benefits as plans were funded.

We also reimburse the divested regional Bell companies for a portion of their costs to provide health care benefits, increases in pensions and other benefits to predivestiture retirees under the terms of the Divestiture Plan of Reorganization. Through 1992 we expensed these reimbursements as incurred.

We recorded a one-time pretax charge for the unfunded portions of these liabilities of $11,317 million ($7,023 million or $4.54 per share after taxes). Apart from these cumulative effects on prior years of the accounting change, our change in accounting had no material effect on net income and it does not affect cash flows.

Postemployment Benefits
We also adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits," effective January 1, 1993. Analogous to SFAS No. 106, this standard requires us to accrue for estimated future postemployment benefits, including separation payments, during the years employees are working and accumulating these benefits, and for disability payments when the disabilities occur. Before this change in accounting, we recognized costs for separations when they were approved and disability benefits when they were paid.

We recorded a one-time pretax charge for the unprovided portion of these liabilities of $1,809 million ($1,128 million or $0.73 per share after taxes). The change in accounting reduced operating income by $301 million and net income by $171 million ($0.11 per share) in 1993. This change does not affect cash flows.

Income Taxes
We also adopted SFAS No. 109, "Accounting for Income Taxes," effective January 1, 1993. Among other provisions, this standard requires us to compute deferred tax amounts using the enacted corporate income tax rates for the years in which the taxes will be paid or refunds received. Before 1993 our deferred tax accounts reflected the rates in effect when we made the deferrals.

The adoption of this standard reduced net income by $1,457 million ($0.94 per share) as a result of deferred liabilities that were created by McCaw Cellular Communications, Inc. acquisitions prior to the merger. Apart from these cumulative effects on prior years of the accounting change, the new accounting method had no material effect on net income in 1993. Unless Congress changes tax rates, we do not expect this change to affect net income materially in future periods. This change does not affect cash flows.

3. Prospective Accounting Changes

Impaired Loans
In 1995 we must adopt SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." This standard requires us to compute present values for impaired loans when determining our allowances for credit losses. We do not expect this new standard to affect net income materially at or after adoption, and it will not affect cash flows.

4. Merger with McCaw Cellular Communications, Inc. (McCaw)

On September 19, 1994, AT&T merged with McCaw. As a result, 197.5 million shares of McCaw common stock were converted into shares of AT&T common stock at an exchange ratio of one share of AT&T common stock for each McCaw share. In addition, AT&T assumed 11.3 million McCaw stock options which were converted into AT&T stock options at the same exchange ratio, resulting in 11.3 million additional AT&T stock options at an average exercise price of $27.43. The merger was accounted for as a pooling of interests, and the consolidated financial statements were restated for all periods prior to the merger to include the accounts and operations of McCaw. Intercompany transactions prior to 1994 were not eliminated due to immateriality. Merger-related expenses of $246 million incurred in 1994 ($187 million net of taxes) were reported as selling, general and administrative expenses. Certain reclassifications were made to McCaw's accounts to conform to AT&T's presentation. Premerger operating results of the companies in the current presentation were:

Dollars in millions	Nine Months Ended September 30, 1994	Year Ended December 31, 1993	1992
Sales and Revenues			
AT&T	$52,178	$67,156	$64,904
McCaw	2,062	2,195	1,743
Eliminations	(256)	—	—
Total	$53,984	$69,351	$66,647
Net Income (Loss)			
AT&T	$ 3,431	$ (3,794)	$ 3,807
McCaw	34	(2,112)*	(365)
Eliminations	(93)	—	—
Total	$ 3,372	$ (5,906)	$ 3,442

*Includes a charge of $45 million previously reported as an extraordinary item for the early redemption of debt

Pension cost includes the following components:

Dollars in millions	1994	1993	1992
Service cost – benefits earned during the period	$ 669	$ 536	$ 452
Interest cost on projected benefit obligation	2,400	2,294	2,225
Amortization of unrecognized prior service costs	230	251	346
Credit for expected return on plan assets*	(3,260)	(3,110)	(2,973)
Amortization of transition asset	(501)	(500)	(502)
Charges for special pension options	—	74	11
Net pension cost (credit)	$ (462)	$ (455)	$ (441)

*The actual return on plan assets was $601 in 1994, $5,068 in 1993 and $2,153 in 1992.

This table shows the funded status of the defined benefit plans:

Dollars in millions at December 31	1994	1993
Actuarial present value of accumulated benefit obligation, including vested benefits of $26,315 and $28,027, respectively	$28,778	$30,804
Plan assets at fair value	$40,150	$41,291
Less: Actuarial present value of projected benefit obligation	30,090	32,495
Excess of assets over projected benefit obligation	10,060	8,796
Unrecognized prior service costs	2,319	2,052
Unrecognized transition asset	(3,460)	(3,960)
Unrecognized net gain	(4,982)	(3,504)
Net minimum liability of nonqualified plans	(93)	(122)
Prepaid pension costs	$ 3,844	$ 3,262

We used these rates and assumptions to calculate the projected benefit obligation:

At December 31	1994	1993
Weighted-average discount rate	8.7%	7.5%
Rate of increase in future compensation levels	5.0%	5.0%

The prepaid pension costs shown above are net of pension liabilities for plans where accumulated plan benefits exceed assets. Such liabilities are included in other liabilities in the consolidated balance sheets.

We are amortizing over approximately 15.9 years the unrecognized transition asset related to our 1986 adoption of SFAS No. 87, "Employers' Accounting for Pensions." We amortize prior service costs primarily on a straight-line basis over the average remaining service period of active employees. Our plan assets consist primarily of listed stocks (including $216 million and $378 million of AT&T common stock at December 31, 1994 and 1993, respectively), corporate and governmental debt, real estate investments, and cash and cash equivalents.

Savings Plans

We sponsor savings plans for the majority of our employees. The plans allow employees to contribute a portion of their pretax and/or after-tax income in accordance with specified guidelines. We match a percentage of the employee contributions up to certain limits. Our contributions in millions amounted to $357 in 1994, $351 in 1993 and $334 in 1992.

14. Postretirement Benefits

Our benefit plans for retirees include health care benefits, life insurance coverage and telephone concessions. This table shows the components of the net postretirement benefit cost:

Dollars in millions	1994	1993
Service cost – benefits earned during the period	$108	$ 95
Interest cost on accumulated postretirement benefit obligation	852	868
Expected return on plan assets*	(242)	(180)
Amortization of unrecognized prior service costs	14	29
Charge for special options	—	29
Net postretirement benefit cost	$732	$841

*The actual return on plan assets was $(30) in 1994, and $243 in 1993.

We did not restate our 1992 financial statements to reflect the change in accounting for retiree benefits. This table shows our actual postretirement benefit costs on a pay-as-you-go basis in 1992:

Dollars in millions	1992
Cost of health care benefits for retirees	$532
Cost of life insurance benefits for retirees	3
Cost of telephone concessions and other benefits	39
Payments to regional Bell companies for predivestiture retirees	145
Postretirement benefit cost	$719

We had approximately 144,900 retirees in 1994, 142,200 in 1993 and 141,200 in 1992.

Our plan assets consist primarily of listed stocks, corporate and governmental debt, cash and cash equivalents and life insurance contracts. This table shows the funded status of our postretirement benefit plans reconciled with the amounts recognized in the consolidated balance sheet:

Dollars in millions at December 31	1994	1993
Accumulated postretirement benefit obligation:		
Retirees	$ 7,861	$ 8,912
Fully eligible active plan participants	822	885
Other active plan participants	1,745	2,084
Accumulated postretirement benefit obligation	10,428	11,881
Plan assets at fair value	3,291	2,918
Unfunded postretirement obligation	7,137	8,963
Less:		
Unrecognized prior service cost	(46)	210
Unrecognized net (gain) loss	(633)	558
Accrued postretirement benefit obligation	$ 7,816	$ 8,195

We made these assumptions in valuing our postretirement benefit obligation at December 31:

	1994	1993
Weighted-average discount rate	8.8%	7.5%
Expected long-term rate of return on plan assets	9.0%	9.0%
Assumed rate of increase in the per capita cost of covered health care benefits	8.6%	9.4%

We assumed that the growth in the per capita cost of covered health care benefits (the health care cost trend rate) would gradually decline after 1994 to 5.7% by the year 2021 and then remain level. This assumption greatly affects the amounts reported. To illustrate, increasing the assumed trend rate by 1% in each year would raise our accumulated postretirement benefit obligation at December 31, 1994 by $577 million and our 1994 postretirement benefit costs by $58 million.

15. Stock Options

In our Long-Term Incentive Program, we grant stock options, stock appreciation rights (SARs), either in tandem with stock options or free-standing, and other awards. On January 1 of each year, 0.6% of the outstanding shares of our common stock become available for grant. The exercise price of any stock option is equal to or greater than the stock price when the option is granted. When granted in tandem, exercise of an option or SAR cancels the other to the extent of such exercise. Before our mergers with McCaw, NCR and Teradata, stock options were granted under the separate stock option plans of those companies. No new options can be granted under those plans. Option transactions are shown below:

Number of Shares	1994	1993	1992
Balance at January 1	38,011,478	36,777,098	37,267,956
Options assumed in merger with Teradata	—	—	1,848,642
Options granted	5,803,142	7,261,355	7,580,568
Options and SARs exercised	(2,498,132)	(5,766,132)	(9,504,536)
Average price	$25.04	$23.93	$13.66
Options forfeited	(1,031,687)	(260,843)	(415,532)
At December 31:			
Options outstanding	40,284,801	38,011,478	36,777,098
Average price	$36.61	$33.52	$28.53
Options exercisable	28,010,381	24,063,837	23,759,421
Shares available for grant	22,014,728	25,264,307	22,614,535

During 1994, 41,300 SARs were exercised and no SARs were granted. At December 31, 1994, 881,385 SARs remained unexercised and all of these were exercisable.

16. Segment Information

Industry Segments

Our operations in the global information movement and management industry involve providing wireline and wireless telecommunications services, business information processing systems, and other systems, products and services that combine communications and computers. Our operations in the financial services and leasing industry involve direct financing and finance leasing programs for our products and the products of other companies, leasing products to customers under operating leases and being in the general-purpose credit card business. Miscellaneous other activities, including the distribution of computer equipment through retail outlets, in the aggregate, represent less than 10% of revenues, operating income and identifiable assets and are included in the information movement and management segment. Revenues between industry segments are not material.

Dollars in millions	1994	1993	1992
Revenues			
Information movement and management	$71,977	$66,847	$64,753
Financial services and leasing	3,117	2,504	1,894
	$75,094	$69,351	$66,647
Operating Income			
Information movement and management	$ 8,188	$ 6,839	$ 7,200
Financial services and leasing	394	339	193
Corporate and nonoperating	(1,064)	(1,175)	(1,755)
Income before income taxes	$ 7,518	$ 6,003	$ 5,638
Assets			
Information movement and management	$56,551	$51,971	$50,661
Financial services and leasing	21,462	17,033	14,003
Corporate assets	1,714	1,104	1,849
Eliminations	(465)	(715)	(409)
	$79,262	$69,393	$66,104
Depreciation and amortization			
Information movement and management	$ 4,193	$ 4,271	$ 4,046
Financial services and leasing	440	431	352
Capital expenditures			
Information movement and management	$ 4,237	$ 3,831	$ 3,710
Financial services and leasing	609	457	633
Total liabilities			
Financial services and leasing	$19,463	$15,329	$12,250

Geographic Segments

Transfers between geographic areas are on terms and conditions comparable with sales to external customers. The methods followed in developing the geographic area data require the use of estimation techniques and do not take into account the extent to which product development, manufacturing and marketing depend upon each other. Thus the information may not be indicative of results if the geographic areas were independent organizations.

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

..X.. QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1993

OR

..... TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________, to ______________

Commission file number 1-1105

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

A New York Corporation	I.R.S. Employer No. 13-4924710

32 Avenue of the Americas, New York, New York 10013-2412

Telephone - Area Code 212-387-5400

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ..X.. No .....

At April 30, 1993 1,344,159,000 common shares were outstanding.

PART I - FINANCIAL INFORMATION
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in Millions Except Per Share Amounts)
(Unaudited)

	For the Three Months Ended March 31, 1993	For the Three Months Ended March 31, 1992 (a)
Sales and Revenues		
Telecommunications services............	$ 9,967	$ 9,873
Sales of products and systems..........	3,554	3,452
Rentals and other services.............	1,628	1,643
Financial services and leasing.........	570	407
Total revenues.........................	15,719	15,375
Costs		
Telecommunications services		
Access and other interconnection costs..............................	4,457	4,656
Other costs............................	1,825	1,772
Total telecommunications services......	6,282	6,428
Products and systems...................	2,054	2,008
Rentals and other services.............	765	743
Financial services and leasing.........	377	284
Total costs............................	9,478	9,463
Gross margin...........................	6,241	5,912
Operating Expenses		
Selling, general and administrative expenses...............................	3,879	3,709
Research and development expenses......	737	732
Provision for business restructuring...	-	29
Total operating expenses	4,616	4,470
Operating income	1,625	1,442
Other income - net	143	141
Interest expense (d)...................	202	203
Income before income taxes and cumulative effects of accounting changes..............................	1,566	1,380
Provision for income taxes.............	570	497
Income before cumulative effects of accounting changes....................	996	883
Cumulative effects on prior years of changes in accounting for:		
Postretirement benefits (net of income taxes of $4,294) (b)........	(7,023)	-
Income taxes (b).....................	383	-
Cumulative effects of accounting changes..............................	(6,640)	-
Net Income (Loss)......................	$(5,644)	$ 883

(CONT'D)

CONSOLIDATED BALANCE SHEETS (CONT'D)
(Dollars in Millions Except Per Share Amount)
(Unaudited)

	March 31, 1993	December 31, 1992
LIABILITIES AND DEFERRED CREDITS		
Accounts payable	$ 5,086	$ 5,045
Payroll and benefit-related liabilities....	2,903	3,336
Postretirement benefit liabilities (f).....	687	-
Debt maturing within one year (d)..........	8,313	7,600
Dividends payable..........................	443	443
Other current liabilities..................	5,515	4,962
Total current liabilities..................	22,947	21,386
Long-term debt including capital leases (d)	7,439	8,604
Postretirement benefit liabilities (f).....	7,778	-
Other liabilities..........................	4,678	2,634
Deferred income taxes (g)..................	323	4,660
Unamortized investment tax credits.........	329	350
Other deferred credits.....................	193	181
Total liabilities and deferred credits.....	43,687	37,815
Minority interests.........................	441	452
SHAREOWNERS' EQUITY		
Common stock - par value $1 per share......	1,344	1,340
Authorized shares: 2,000,000,000		
Outstanding shares:		
1,343,572,000 at March 31, 1993		
1,339,831,000 at December 31, 1992		
Additional paid-in capital.................	11,573	11,425
Guaranteed ESOP obligation.................	(382)	(407)
Foreign currency translation adjustments....	24	65
Retained earnings..........................	374	6,498
Total shareowners' equity..................	12,933	18,921
TOTAL LIABILITIES AND SHAREOWNERS' EQUITY...	$57,061	$57,188

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Millions)
(Unaudited)

	For the Three Months Ended March 31, 1993	For the Three Months Ended March 31, 1992
Operating Activities		
Net income	$(5,644)	$ 883
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effects of accounting changes (b)	6,640	-
Depreciation	893	885
Provision for uncollectibles	403	355
Provision for business restructuring	-	29
Decrease (increase) in accounts receivable	110	(246)
(Increase) in inventories	(374)	(88)
Increase in accounts payable	51	162
Net change in other operating assets and liabilities	(124)	(520)
Other adjustments for non-cash items - net	35	14
Net cash provided by operating activities	1,990	1,474
Investing Activities		
Capital expenditures net of proceeds from sale or disposal of property, plant and equipment of $56 and $28	(614)	(850)
Increase in finance receivables, net of lease-related repayments of $1,212 and $907	(97)	(299)
Net (increase) in investments	(766)	(17)
Acquisitions, net of cash acquired	-	(6)
Other investing activities - net	(122)	39
Net cash used in investing activities	(1,599)	(1,133)
Financing Activities		
Proceeds from long-term debt issuance	112	1,570
Retirements of long-term debt	(551)	(1,856)
Issuance of common shares	166	146
Treasury shares acquired	(1)	-
Dividends paid	(443)	(432)
Increase in short-term borrowings - net	(1)	(521)
Other financing activities - net	(16)	(21)
Net cash used in financing activities	(734)	(1,114)

(CONT'D)